Economic Commentary

TrustINdiana

Market Commentary for **November 2009**

Economy Stabilizing But Still Fragile

The economic data that was released in the months of October and November further suggest that the U.S. economy is stabilizing and the recession is ending. Third quarter Gross Domestic Product (GDP) growth was revised downward by the Bureau of Economic Analysis to 2.8 percent growth from the advance estimate of 3.5 percent growth. GDP growth is down 2.5 percent year-over-year. It is expected that growth in the fourth quarter will be around 3 percent. Moody's estimates that real GDP growth will be 2 percent in 2010 and then accelerate to 4 percent growth in 2011.

The official unemployment rate fell from 10.2 percent in October to 10 percent in November, marking the first time the rate has gone down since July of this year. The average work week also increased to 33.2 hours from 33 hours in the same period. This can be interpreted as a positive sign because employers usually increase existing workers' hours before hiring new staff. The decline in official unemployment in November does not necessarily make for a trend. Indeed it is thought that unemployment will go back up as people who had previously stopped looking for work attempt to get back into the labor market.

Consumer-related indicators were mixed in October and November. The Conference Board index of consumer confidence increased slightly in November to 49.5 from 48.7 in October. The expectations component of the index, which measures consumers' attitudes about the future, climbed from 67 to 68.5, while the present conditions aspect of the index fell to 21 from 21.1. Conversely, the University of Michigan consumer sentiment index fell in the same period to 67.4 from 70.6 in October. Both the present conditions and future expectations parts of the index fell. The decline was likely largely due to the announcement of a 10.2 percent unemployment rate at the beginning of the month. Personal income rose 0.2 percent in October. Real spending climbed 0.4 percent in the same month and the saving rate fell to 4.4 percent from 4.6 percent in September. The core personal consumption expenditures (PCE) deflator, which excludes food and energy prices and is the Fed's preferred measure of inflation, rose 0.2 percent in October and 1.4 percent annualized. The core consumer price index (CPI) increased by 0.2 percent in October and 1.7 percent annualized. Both of these figures suggest that prices will not increase considerably in the near-term.

Business-related indicators also painted a mixed picture. Retail sales (MARTS) jumped 1.4 percent in October after a 2.3 percent decline the previous month. This was led largely by automobile and gasoline sales. In fact, car and parts dealer sales shot up 7.4 percent, while most other retail sectors declined aside from restaurants, which posted a 1.2 percent gain. New orders for manufactured durable goods declined slightly by 0.6 percent in October. The drop was led by machinery manufacturers, where orders plunged 8 percent. Core capital goods orders were also down by 2.9 percent. The Institute for Supply Management's (ISM) manufacturing index fell from 55.7 in October to 53.6 in November, however it is still above the expansionary threshold of 50, suggesting the manufacturing sector is still recovering. Corporate profits for the third quarter surged 10.6 percent from the second quarter. Ninety percent of the increase came from financial corporations.

There was good news on the housing front. Existing home sales grew by an impressive 10.1 percent in October, after an 8.8 percent increase in September. Growth was seen in every region of the country. Existing home sales are the strongest they have been since early 2007 and are up by roughly 24 percent year-over-year. Sales of new homes also jumped 6.2 percent in October from the previous month, but were driven by the South, where sales rose 23 percent. The other regions of the country (the West, Midwest, and Northeast) posted declines to varying degrees with the Midwest leading the way with a 20 percent plunge. The increase in both existing and new home sales is being attributed in part to the government's first-time homebuyer tax credit.

There has been no meeting of the Federal Open Market Committee since last month's Economic Commentary, therefore the fed funds target rate remains between zero and 0.25 percent. The next meeting is scheduled for December 15.

Sector Review

U.S. Treasuries: In a potential arrangement to help the Federal Reserve manage its exit strategy, the Fed announced that it was going to test reverse repurchase agreements with primary dealers during the month of December. This transaction type is expected to help the Fed by allowing it to remove excess cash reserves from the market and try to minimize any potential inflationary affect the recent unprecedented accommodative monetary policy actions may bring about. The 10-year note yield decreased to a 3.20 percent yield from a 3.50 percent yield over the prior month. The two-year note yield fell to 0.66 percent yield from a 0.97 percent yield while the three-month bill saw yields remain steady at 0.04 percent. (Rates and prices maintain an inverse relationship. Prices decrease as yields increase).

Commercial Paper: Commercial paper supply has stabilized recently although yields remain challenged as the Fed continues to maintain its target rate in the zero to 0.25 percent area. Money market fund balances remain robust even with unusually low yields. The year-end chase is on as issuers look to fund themselves over year-end and lock in rates to help minimize their overall funding cost risks. One-month and three-month top-tier, higher quality asset-backed commercial paper (ABCP) and bank names trade between 0.10 percent and 0.40 percent.

U.S. Government Agencies: The Federal Reserve has almost completed its purchase of Fannie Mae and Freddie Mac agency and mortgage securities. They are approximately 85 percent complete and are trying to make measured remaining purchases. Meanwhile, over $200 billion of maturities loom in discount notes and the refinancing of these securities could cause yields to increase slightly. Discount note yields have been changing hands at yields similar to treasury bills and may need to increase in yield in order to obtain the requisite demand to refinance these maturities. Agency yields at month-end on three-month paper yielded near 0.07 percent, six-month paper yielded 0.15 percent, and 12-month paper yielded 0.35 percent.

Strategy: The Federal Reserve continues to maintain its federal funds target range between zero and 0.25 percent. While there are still some signs of reduced pressure on economic activity, slow growth remains evident in the remaining quarter of 2009 as the recessionary environment appears to be ebbing and an economic recovery is potentially starting to take hold. The substantial rally in corporate spreads has been a positive driver of portfolio performance year-to-date. While most of the spread tightening in the fixed income market is likely behind us, we still see value in many credit-related sectors. Based on our expectation of a slow, steady economic recovery, we continue to favor an overweight to the credit sectors of the market. The portfolios also maintain a level of liquidity that will allow us to take advantage of select opportunities that could present themselves in the coming quarters.

DJIA		NASDAQ		S&P 500	
6.50%	17.87%	4.86%	35.98%	5.73%	21.29%
Month	Year-to-Date	Month	Year-to-Date	Month	Year-to-Date

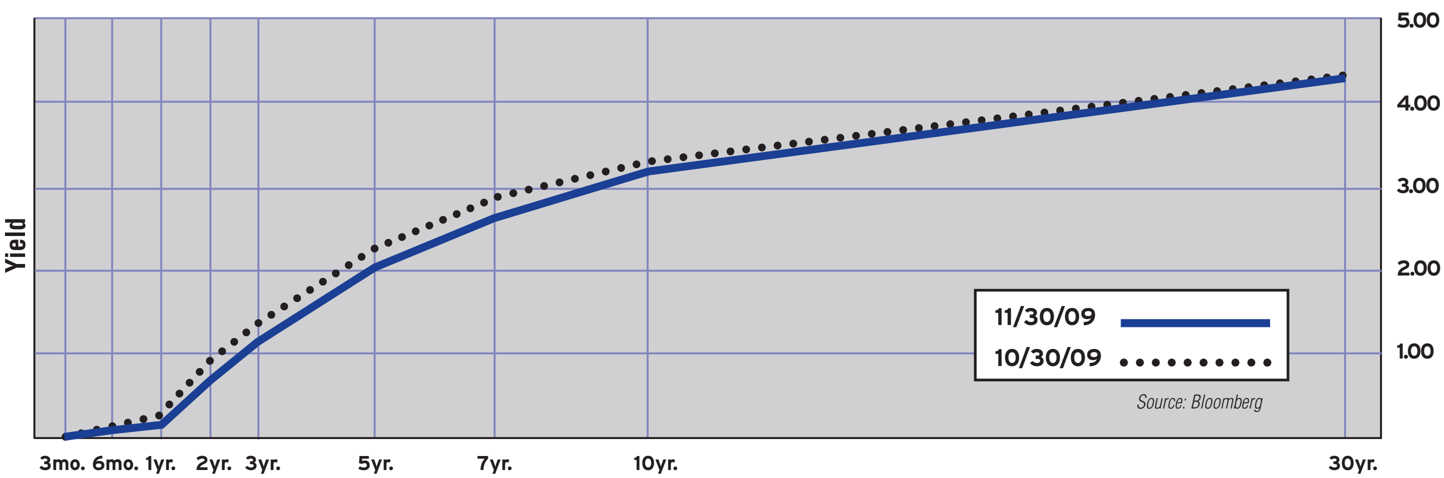
The opinions expressed above are those of TrustINdiana and are subject to change without notice. All statistics represent month-end figures unless otherwise noted.

Market Summary for **November 2009**

Monthly Market Summary - Week-ending Rates and Yields

	11/06	11/13	11/20	11/27	4th QTR AVG	3rd QTR AVG	2nd QTR AVG	1st QTR AVG
Overnight Rates								
Effective Fed Funds	0.12	0.12	0.11	0.12	0.12	0.15	0.18	0.18
Repurchase Agreements	0.10	0.05	0.10	0.10	0.11	0.10	0.14	0.16
Discount Rates								
1 Month Treasury Bill	0.13	0.11	0.10	0.08	0.12	0.10	0.09	0.10
1 Month Agency Disc.	0.15	0.13	0.13	0.12	0.14	0.13	0.13	0.17
1 Month Com'l Paper	0.25	0.20	0.20	0.23	0.22	0.22	0.24	0.36
3 Month Treasury Bill	0.17	0.15	0.14	0.13	0.16	0.14	0.16	0.18
3 Month Agency Disc.	0.19	0.19	0.17	0.17	0.19	0.17	0.19	0.30
3 Month Com'l Paper	0.36	0.35	0.31	0.27	0.33	0.32	0.46	0.71
6 Month Treasury Bill	0.25	0.22	0.23	0.21	0.24	0.22	0.28	0.33
6 Month Agency Disc.	0.30	0.29	0.26	0.25	0.29	0.26	0.30	0.47
6 Month Com'l Paper	0.47	0.43	0.42	0.39	0.44	0.42	0.62	1.04
Yields								
1 Year Treasury	0.34	0.32	0.27	0.26	0.34	0.45	0.53	0.56
1 Year Agency	0.63	0.52	0.56	0.51	0.54	0.52	0.73	0.76
2 Year Treasury	1.30	1.05	1.09	1.02	1.05	1.02	1.02	0.90
2 Year Agency	1.47	1.20	1.28	1.15	1.20	1.16	1.37	1.60
5 Year Treasury	2.82	2.51	2.57	2.45	2.50	2.46	2.25	1.77
5 Year Agency	3.15	2.91	3.01	2.86	2.91	2.87	2.83	2.65

Historical Yield Curve



Key Economic Indicators

	For the Period	Date of Release	Expected	Actual	Prior
Unemployment Rate	November	12/04	10.2%	10.0%	10.2%
Consumer Price Index	October	11/18	-0.3%	-0.2%	-1.3%
- Less Food and Energy	October	11/18	1.6%	1.7%	1.5%
Consumer Conf. (CB)	November	11/24	47.3	49.5	47.7
FOMC Rate Decision		11/04	0%-0.25%	0%-0.25%	0%-0.25%
Gross Domestic Product	3Q	11/24	2.8%	2.8%	3.5%

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